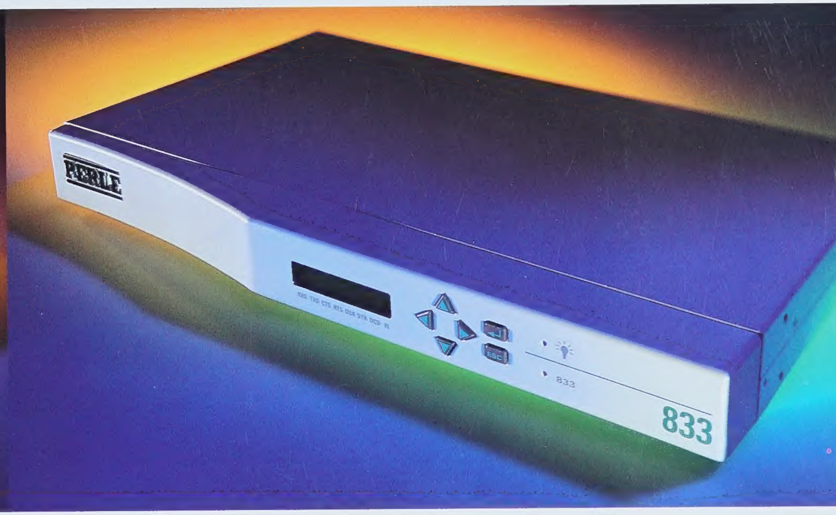
SUCCESSFUL GROWTH

Perles' extremely fast time to market increases the value of Perle products to our customers and is one of the key factors in our increasing market share in the AS/400 market.

PROGRESSIVE GROWTH

We will continue to make investments in the Remote Access Server marketplace to quickly establish Perle as a recognized brand name supplier.



PERLE®

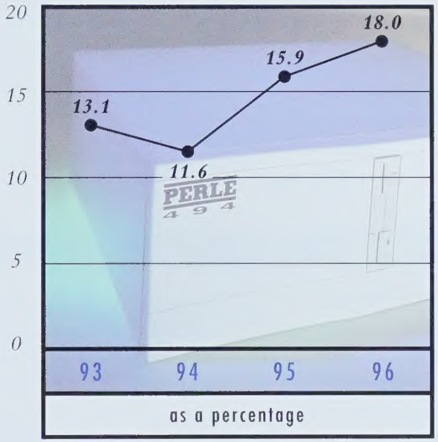
Corporate Profile

Perle Systems Limited, founded in 1976, is a developer, manufacturer and seller of award winning data communications hardware and software products. Perle products include Remote Communications Controllers for IBM AS/400 networks and Remote Access Servers for LANs. Perle specializes in products where customers require remote access to their mission critical applications with ease-of-use, extreme reliability, low cost and leading edge hot-line support. Perle sells these products world-wide through 29 Perle offices in 14 countries located in North and South America, Europe, Asia and Australia.

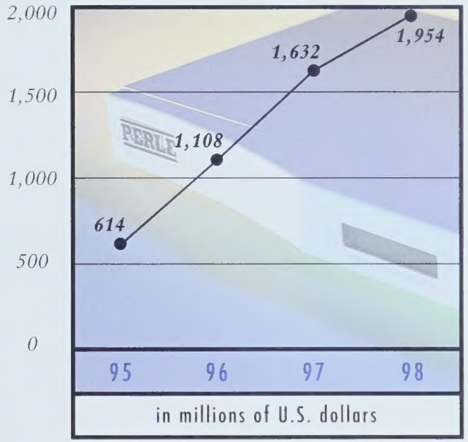
AS/400 Connectivity

Remote Access Server for LANs

Annual Growth Rate
Sales - AS/400 Connectivity Products



Remote Access Server Market



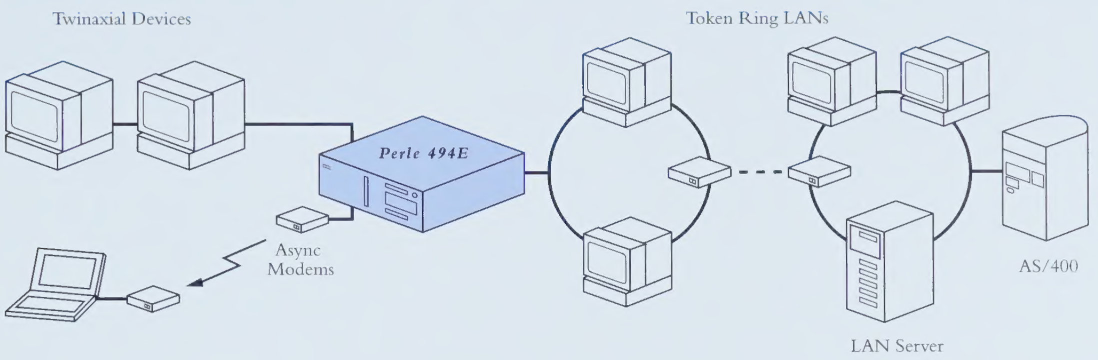
AS/400 Connectivity

Products	Technology	Market & Product Position	Future
Remote Controllers Perle 394 Perle 494E *Dial Up-* Model 3i M3PC Perle 5250 PerleTALK	• Token Ring & Ethernet • Dial up, ASCII • X.21, X.25, SDLC • Multi-host, Multi-session, APPN • Frame relay • Auto-configuration • Remote management tools • Award winning products • Windows'95 • TCP/IP announced release 4th Q, 1996 • Advanced IBM compatible Remote Controller	• 360,000 AS/400s world-wide • Over 35,000 Perle products installed to over 10,000 customers • IBM AS/400 shipments growing at 15% - 20% per annum • IBM AS/400 shipments 20% to new customers • Company has 31% of the market • Company has brand name recognition	• Expected to be significant portion of the Company's sales for the future • Growing at 15% - 20% per annum

Remote Access Server for LANs

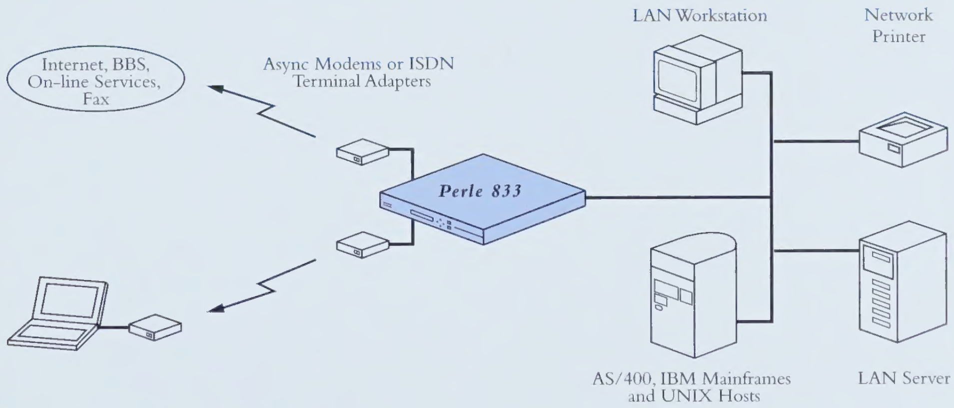
Products	Technology	Market & Product Position	Future
Perle 833	• 2, 4, 8, port high speed connectivity with speeds up to 115Kbps, Ethernet & Token Ring • Remote node, supports remote control products • DOS, Windows & Windows'95 • Remote installation and setup • Novell, NT, IBM, Unix • Windows GUI based management • Security including password, dial back and NetWare security options • Dial out	• Currently at $614 U.S. million world-wide growing to $1.9 U.S. billion by 1998 • Remote users requiring access to their LANs • Easy to install and use • Highly reliable, no moving parts • Complete remote access solution including world class hot-line support • Award winning products, PC Magazine usability seal of approval	• Represents significant growth opportunity for the Company

AS/400 Connectivity



Perle customers know Perle value: compatible, easy-to-use, reliable products, very competitively priced.

Remote Access Server for LANs



The Perle value principles will position Perle for progressive growth and success in the LAN Remote Access Server marketplace.

Five Year Summary

(In thousands of Canadian dollars)	**1996**	% Change	1995	% Change	1994	% Change	1993	% Change	1992
			(1)		(1)		(1)		(1)
Operations									
Sales	**46,298**	24%	37,394	16%	32,254	12%	28,914	13%	25,555
Cost of sales	**17,600**	35%	13,030	26%	10,360	2%	10,133	18%	8,583
Gross profit	**28,698**	18%	24,364	11%	21,894	17%	18,781	11%	16,972
Selling, general and administration	**26,782**	47%	18,182	13%	16,149	9%	14,792	28%	11,559
Research & development expenditures (net)	**5,611**	-9%	6,190	99%	3,111	23%	2,533	8%	2,350
Amortization of capital assets	**867**	17%	744	-4%	775	3%	754	12%	676
Income tax expense (recovery)	**(493)**		(188)		761		446		1,428
Net income (loss) for the year	**(3,756)**		(598)		1,158		419		1,026
Gross profit margin	**62%**		65%		68%		65%		66%
Cash provided from operating activities (used in)	**(4,743)**		(1,256)		1,316		(223)		1,597
Employees	**242**	28%	189	6%	179	13%	158	3%	153
Financial Condition									
Cash balances	**9,546**		2,110		5,308		1,020		3,093
Working capital	**15,689**		5,319		7,893		3,679		4,599
Total assets	**34,878**		20,164		20,541		13,781		14,595
Long-term debt	**–**		–		–		–		–
Common shareholder's equity	**24,902**		12,520		13,060		7,997		7,495
Common shares outstanding									
Weighted	**6,468**		5,202		4,818		4,322		4,262
Year-end	**7,162**		5,223		5,192		4,351		4,293
Return on common shareholder's equity	**-20.07%**		-4.68%		11.00%		5.41%		14.78%
Ratios (XX:1)									
Current ratio	**2.57**		1.73		2.15		1.64		1.68
Quick ratio	**2.37**		1.34		1.77		1.23		1.12
Capital Markets									
Per Share									
Basic earnings (loss) (cents)	**(0.58)**		(0.11)		0.24		0.10		0.24
Cash dividends (cents)	**–**		–		–		–		–
Price earnings multiple	**n/a**		n/a		21.58		50.98		19.11
Price sales multiple	**0.95**		0.86		0.83		0.77		0.77

Notes: (1) Restated for change in accounting policy, see note 2 to the consolidated financial statements for further details.
All historic share values and information calculated based on the number of outstanding shares have been restated to give retroactive application to the two-for-one stock split approved by the Company during fiscal 1995.

Selected Quarterly Financial Information

Summarized quarterly financial information for each quarter of the preceding two years ending May 31, 1996 are as follows:

(Unaudited, in thousands, except per share data)

	Sales	Gross Profit	Net Income (Loss)	Earnings (Loss) per Share
1996				
1st Quarter	$ 9,806	$ 6,458	$ (108)	$ (0.02)
2nd Quarter	9,588	5,998	(877)	(0.16)
3rd Quarter	10,880	6,769	(855)	(0.14)
4th Quarter	16,024	9,473	(1,916)	(0.26)
Total	$ 46,298	$ 28,698	$ (3,756)	$ (0.58)
1995				
1st Quarter	$ 7,869	$ 5,240	$ (329)	$ (0.06)
2nd Quarter	8,711	5,565	(900)	(0.17)
3rd Quarter	9,844	6,222	(97)	(0.02)
4th Quarter	10,970	7,337	728	0.14
Total	$ 37,394	$ 24,364	$ (598)	$ (0.11)

Stock Prices (1)

	NASDAQ			TSE		
	High	Low	Volume	High	Low	Volume
			U.S. dollars			*Cdn dollars*
1996						
1st Quarter	$ 9.25	$ 4.63	214,380	$12.00	$ 6.63	55,840
2nd Quarter	$ 8.25	$ 5.50	115,483	$10.25	$ 7.88	850,209
3rd Quarter	$ 6.13	$ 4.00	75,885	$ 8.25	$ 5.50	470,018
4th Quarter	$ 5.38	$ 3.25	797,057	$ 7.10	$ 4.25	838,883
1995						
1st Quarter	$4.63	$2.75	3,000	n/a	n/a	n/a
2nd Quarter	$4.38	$2.50	72,500	n/a	n/a	n/a
3rd Quarter	$4.50	$3.00	26,200	n/a	n/a	n/a
4th Quarter	$5.50	$3.50	636,025	$ 6.50	$6.50	200

(1) Where applicable, stock prices have been restated to give retroactive application for the two-for-one stock split dated November 4, 1994.

The above high/low sales prices for the NASDAQ reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not represent actual transactions.

SUCCESSFUL GROWTH

AS/400 Connectivity Products

Perle's AS/400 connectivity products are application independent and as such its customers include: manufacturers, distributors, transportation firms, retailers, governments, hospitals, educational and research facilities, as well as banks and other financial institutions. A typical customer for these products has one or more AS/400s and many more remote users such as branch offices, warehouses, distribution centers, traveling salespersons or executives. To date, over 10,000 organization's have purchased Perle's products. Many of these customers have extremely large and sophisticated networks and perform significant acceptance testing before introducing products into their networks.

Perle's AS/400 connectivity products have developed significant brand name recognition and customer loyalty. Perle's Remote Controller products, the Perle 394 and Perle 494E, have received the Buyer's Choice Award for the last five consecutive years while the Perle Model 3i Workstation Controller has received the Buyers Choice Award for the last three consecutive years.

Perle products are continually enhanced adding new functions, capabilities and value to Perle customers. Perle's quick development time and introduction of products, features and enhancements in response to identified market trends ensures the highest level of value for Perle products to our customers and is one of the key factors to increasing market share.

PERLE
494
successful
growth
Ready
Call Perle Service
See PD Guide
Test Mode
ESC
PF1
PF2
PF3
Slot
Ctrl
Alt
Req
Clear
Enter

PROGRESSIVE GROWTH

Local Area Network (LAN) Remote Access Server

This market began to develop in 1972 with the increased popularity of notebook and laptop computers. The market for Perle's LAN Remote Access Server, the Perle 833, consists of those users with LAN's with Novell NetWare, Windows NT and other popular operating systems, who require access to their networks from a remote location with full LAN functionality.

Typically users in this market include traveling executives, sales representatives and other persons using notebook and laptop computers as well as small branch offices, dealerships, franchises and home workers. The limited amount of data traffic produced by these users and/or their mobility requires a solution other than that of maintaining a leased telephone line. This access is accomplished by connecting the remote computer via a communications device (such as modem or ISDN terminal adapter) to a telephone line which is in turn connected to a similar communications device attached to the Remote Access Server. According to a recent report, International Data Corporation estimates the size of the worldwide market for LAN Remote Access Servers will grow to $1.9 billion in annual sales by 1998 from 1995 sales of $614 million.

The Perle 833 provides the remote user with the management and security features of the user's LAN that are available to the user when directly connected to the LAN. The management features available include LAN reconfiguration and maintenance while security features available include user identification, password security and dial-back authentication (fixed and roaming).

Perle believes that providing value through its competitive pricing, warranty and technical support strategies will enable it to compete as effectively in this market as in the AS/400 connectivity market.


PERLE
growth
ESC
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Message to Shareholders

Fiscal 1996 marked a record breaking year for Perle Systems Limited

The year in passing saw the company continue its leadership role in the IBM compatible Remote Controller market while broadening its product offering into the Remote Access Server market. Some of this year's key achievements included:

- In the first quarter we introduced the Perle 833 Remote Access Server targeting mobile users needing network access to mission critical business applications and data. This market will be worth an estimated $1.6 billion by 1997, according to IDC.
- In the second quarter we completed a public share offering which raised $13.4 million. The funds of this offering are being used primarily to finance the marketing and ongoing research and development for the Perle 833.
- In the third quarter we implemented the Perle 833 "ease-of-use" product positioning. These features were highlighted in the April issue of PC Magazine, which ranked the Perle 833, first in overall usability over other Remote Access Servers. In this same review the Perle 833 also scored first overall in productivity and effectiveness.
- In the fourth quarter we focused on building the infrastructure in sales, marketing and technical support necessary to sustain faster sales growth.

Our record sales levels confirm the successful implementation of our strategy with respect to our long-term objectives.

At Perle, we pride ourselves on the technical prowess and durability of our connectivity products, however, we make our most important connection with our customers. Our global team of sales representatives and authorized dealers work exceptionally hard for our customers, delivering the best networking solutions in both the Remote Access Server (RAS) and AS/400 markets. Satisfied customers are our first priority, and over 10,000 are found throughout the world. We are dedicated to high-value products that bring together reliability and ease-of-use through advanced technology and adherance to industry standards like Windows'95.

In 1997, we will continue to make serious investments in the Remote Access Server marketplace to establish Perle, as quickly as possible, as the recognized brand of choice. Additionally we will further our successful growth in the IBM compatible Remote Controller market. Our constant attention to process excellence means Perle will continue to provide to a growing base of customers, high-valued networking products, backed by the best technical support in the industry.

JD Perle

Joseph E. Perle, President and Chief Executive Officer

Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary of Results

During fiscal 1996 the Company focused on increasing its long-term rate of sales growth. The objectives for the year were to establish the Perle 833 Remote Access Server in the LAN marketplace and increase the market share of the Company's AS/400 connectivity products. The specific initiatives for these objectives were concentrated in the areas of marketing, promotion and product development for the Perle 833 and increased marketing for AS/400 connectivity products. The Company believes the investment made in the current year on these initiatives will help achieve its strategy of increasing the rate of sales growth over the long-term.

Results of Operations

Sales

Sales were $46.3 million in fiscal 1996, $37.4 million in fiscal 1995 and $32.3 million in fiscal 1994 representing an increase of 24% over fiscal 1995 and 43% over fiscal 1994. The fiscal 1996 results reflected 15% and 24% increases in sales in the Americas Segment over fiscal years 1995 and 1994 respectively and an increase in the International Segment of 37% and 79% over fiscal 1995 and fiscal 1994 respectively.

These increases in sales were the result of the continued success of the Perle 494E, the introduction of the Perle 833 Remote Access Server and increased market penetration in all geographic segments in fiscal 1996. On a quarterly basis, fiscal 1996 sales increased 25%, 10%, 11% and 46%, respectively, over the sales in the first, second, third and fourth quarters of fiscal 1995. The quarterly percentage increases for fiscal 1996 reflect the continued growth in sales of the AS/400 connectivity products and the incremental sales of the Perle 833 Remote Access Server. The growth in the fourth quarter reflects initiatives to increase sales undertaken in that quarter.

Gross Profit

Gross profit (being sales minus cost of sales) was $28.7 million in fiscal 1996, $24.4 million in fiscal 1995 and $21.9 million in fiscal 1994, representing increases of 18% over fiscal 1995 and 31% over fiscal 1994. This increase is the result of increased units shipments. As a percentage of sales gross profit was 62% in fiscal 1996, 65% in fiscal 1995 and 68% in fiscal 1994. The change in gross profit as a percentage of sales reflects the Company's focus on improving product positioning for ease of use to differentiate Perle products from that of its competitors. As a result of this improvement, cost of sales includes additional labour costs incurred to implement and

Management's Discussion and Analysis continued

operate a world-wide multi-lingual customer assistance toll free hot-line from a central location on a 24 hours per day, 7 days a week basis. Management does not intend for the expenses related to this call centre to increase proportionally with sales.

Selling, General and Administrative

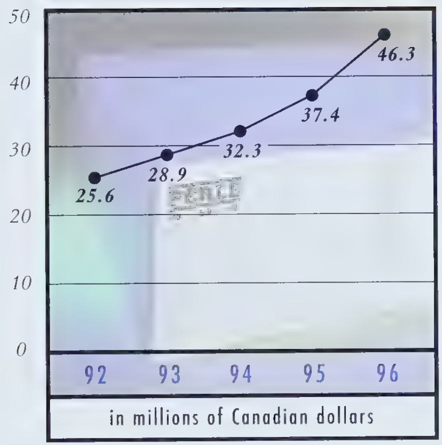
Selling, general and administrative expenses were $26.8 million in fiscal 1996, $18.2 million in fiscal 1995 and $16.1 million in fiscal 1994, representing increases of 47% over fiscal 1995 and 66% over fiscal 1994. As a percentage of sales these expenses increased 9% to 58% in fiscal 1996 from 49% in fiscal 1995 and 8% from 50% in fiscal 1994. Specific initiatives related to the marketing and support expenses of establishing the Perle 833 Remote Access Server in the Local Area Network marketplace amounting to approximately $3.1 million and a further amount of approximately $2.5 million relate to increasing the Company's market share of the AS/400 connectivity products have been expended in the current year.

Research and Development

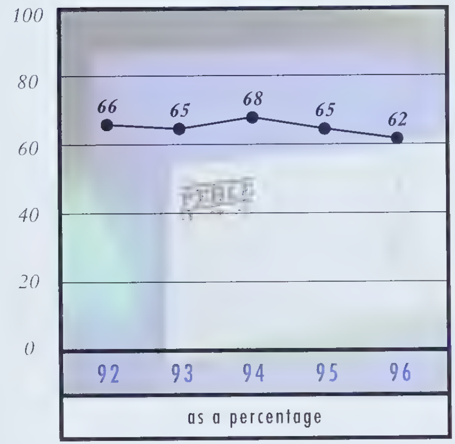
The Company's research and development activities are currently directed towards adding new functions to existing products and the development of new products for Perle's AS/400 and LAN Remote Access Server markets. The Company's investment over the last five years averages 11% of its annual sales. In fiscal 1996, the Company expended $5.6 million or 12% of its sales. This amount compares to 17% or $6.2 million in fiscal 1995 and 10% or $3.1 million in fiscal 1994. The increase in the last two years reflects the Company's additional investment in the initial development of the Perle 833 Remote Access Server for local area networks. The Company believes that its current research and development initiatives will be met by funds generated from operations and the proceeds of the offering described in financial condition liquidity and financial resources.

The financial results reflect the change in accounting policy that results in expensing software development as incurred. The Company concluded that it would be appropriate to apply a different interpretation of the criteria for capitalization of development costs than previously applied. This change has been applied retroactively, resulting in the prior period's figures being adjusted so that they are comparable. The effect of this change on earnings per share has been to reduce the earnings per share figure for fiscal 1996, 1995 and 1994 by $0.50, $0.61 and $0.16 respectively.

Sales



Gross Profit Margin



Management's Discussion and Analysis continued

Income Taxes

Income tax provision (recovery) was ($0.5) million in fiscal 1996, ($0.2) million in fiscal 1995 and $0.8 million in fiscal 1994. The fiscal 1996 tax recovery is lower than expected as the Company did not fully reflect the benefit of current years losses. The impact of this is approximately $1.3 million.

Including amounts in prior years, the Company has unrecorded losses of approximately $5.5 million which are available to reduce future years taxable incomes.

Financial Condition

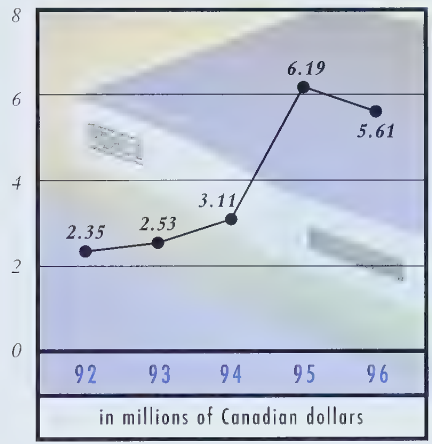
Liquidity, Financial Resources and Working Capital

As at May 31, 1996 the Company had cash and accounts receivable financial resources of $21.3 million, an increase of $13.4 million over those resources for the previous year which amounted to $7.9 million. This increase is represented by increases of $7.4 million and $5.9 million in cash and accounts receivable respectively.

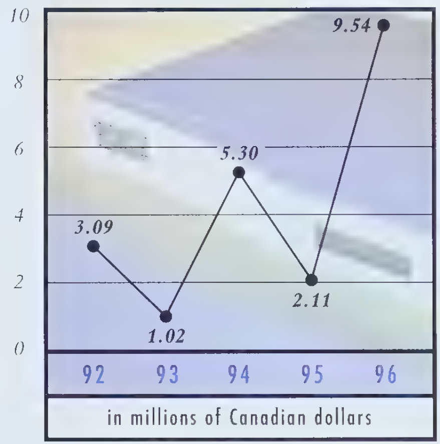
The increase in cash results from cash used in operations amounting to $6.6 million offset by cash provided by financing activities, principally the issuance of common shares, of $15.1 million and cash used in investing activities, principally the purchase of capital assets, of $1.0 million. The increase in accounts receivable is the result of the Company's fourth quarter sales which amounted to $16.0 million, 46% greater than the previous comparable quarter.

In addition to the financial resources of cash and accounts receivable, the Company has $6 million available under a $6 million unsecured operating line of credit which bears interest at the prime rate. The company began fiscal 1996 using this facility, however, during the year cash resources were applied to repay the May 31, 1995 amount outstanding of $1.1 million. Working capital, as defined by current assets less current liabilities, increased to $15.7 million at May 31, 1996, from $5.3 million on May 31, 1995. The Company believes it has sufficient financial resources to fulfill its currently planned operating and investing requirements.

Research and Development Expenditures



Cash Balances



Management's Report

The accompanying consolidated financial statements of Perle Systems Limited and its subsidiaries and all information in this annual report are the responsibility of management and have been approved by the board of directors.

The consolidated financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts that are based on estimates and judgements and management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information used elsewhere in the annual report is consistent with that in the consolidated financial statements.

Management of the Corporation, in furtherance of the integrity and objectivity of data in the consolidated financial statements, has developed and maintains a system of internal accounting controls.

Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for the preparation of consolidated financial statements, and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the consolidated financial statements in this annual report principally through its audit committee. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval to the board of directors. The shareholders' auditors have full access to the audit committee, with and without management being present. These consolidated financial statements have been audited by the shareholders' auditors, Ernst & Young, Chartered Accountants, and their report is presented herein.

Douglas Langford, Chief Financial Officer

Auditors' Report

To the Shareholders of Perle Systems Limited:

We have audited the consolidated balance sheets of Perle Systems Limited as at May 31, 1996 and 1995 and the consolidated statements of income (loss), shareholders' equity and changes in financial position for each of the years in the three year period ended May 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three year period ended May 31, 1996 in accordance with accounting principles generally accepted in Canada.

Ernst & Young
Ernst & Young Chartered Accountants
Toronto, Ontario June 28, 1996

Comments by Auditors for U.S. Readers

As explained in Note 2 of the notes to the consolidated financial statements, the Company has made a change, with which we concur, in the method of accounting for software development costs under both United States and Canadian generally accepted accounting principles. Our report to the shareholders dated June 28, 1996 is expressed in accordance with Canadian reporting requirements which do not allow a reference to such change. In the Unites States a reference to such change is required.

Ernst & Young
Ernst & Young Chartered Accountants
Toronto, Ontario June 28, 1996

Consolidated Balance Sheets

As at May 31 (Canadian dollars)	1996	1995
		(Restated note 2)
Assets		
Current:		
Cash	$ 9,546,004	$ 2,110,245
Accounts receivable (note 3)	11,800,207	5,868,058
Inventories (note 4)	2,063,345	2,863,336
Prepaid expenses	1,355,202	1,071,450
Income taxes recoverable	901,066	692,672
Total current assets	25,665,824	12,605,761
Capital assets, net (note 5)	2,939,088	2,572,405
Other assets (note 6)	6,273,167	4,985,993
Total assets	$ 34,878,079	$ 20,164,159
Liabilities and Shareholders' Equity		
Current:		
Bank indebtedness	$ –	$ 1,078,895
Accounts payable and accrued liabilities (note 10 (c))	8,130,056	4,493,601
Deferred revenue	1,846,369	1,714,027
Total current liabilities	9,976,425	7,286,523
Deferred income taxes	–	357,838
Shareholders' Equity:		
Common share capital - authorized: unlimited (issued and outstanding: 1996 - 7,162,398; 1995 - 5,223,094; note 7)	27,505,947	11,368,567
Retained earnings (deficit)	(2,604,293)	1,151,231
Total shareholders' equity	24,901,654	12,519,798
Total liabilities and shareholders' equity	$ 34,878,079	$ 20,164,159

Commitments and other information (note 10)

On behalf of the Board:

Director

Director

(See accompanying notes to the consolidated financial statements.)

Consolidated Statements of Income (Loss)

For the years ended May 31 (Canadian dollars)	1996	1995	1994
			(Restated note 2)
Sales	$ 46,298,277	$ 37,394,209	$ 32,253,650
Expenses:			
Cost of sales	17,599,735	13,030,488	10,359,541
Selling, general and administration	26,782,360	18,181,557	16,149,265
Research and development expenditures (net of ITCs, note 6)	5,610,734	6,190,071	3,111,049
Amortization of capital assets	866,963	743,937	774,651
Interest expense (income)	(313,135)	34,402	(60,308)
	50,546,657	38,180,455	30,334,198
Income (loss) before income taxes	(4,248,380)	(786,246)	1,919,452
Income tax expense (recovery) (note 8)	(492,856)	(188,093)	761,069
Net Income (Loss) for the Year	$ (3,755,524)	$ (598,153)	$ 1,158,383
Earnings (Loss) per Common Share (note 9)			
Basic	$ (0.58)	$ (0.11)	$ 0.24
Fully diluted	$ (0.58)	$ (0.11)	$ 0.23

Consolidated Statements of Shareholders' Equity

For the years ended May 31 (Canadian dollars)	1996	1995	1994
Common Share Capital:			(Restated note 2)
Shares			
Opening balance	5,223,094	5,192,354	4,350,554
Issuance of common shares (note 7)	1,939,304	30,740	841,800
Closing balance	7,162,398	5,223,094	5,192,354
Amount			
Opening balance	$ 11,368,567	$ 11,310,842	$ 7,406,252
Issuance of common shares (note 7)	16,137,380	57,725	3,904,590
Closing balance	27,505,947	11,368,567	11,310,842
Retained Earnings (Deficit):			
Opening balance	1,151,231	1,749,384	591,001
Net income (loss) for the year	(3,755,524)	(598,153)	1,158,383
Closing balance	(2,604,293)	1,151,231	1,749,384
Total Shareholders' Equity	$ 24,901,654	$ 12,519,798	$ 13,060,226

(See accompanying notes to the consolidated financial statements.)

Consolidated Statements of Changes in Financial Position

For the years ended May 31 (Canadian dollars)	1996	1995	1994 (Restated note 2)
Cash Provided by (Used in):			
Operating Activities			
Net income (loss) for the year	$ (3,755,524)	$ (598,153)	$ 1,158,383
Add (deduct) items not affecting cash:			
Investment tax credits	(1,070,000)	(1,155,990)	(1,173,457)
Amortization of capital assets	866,963	743,937	774,651
Deferred income taxes	(784,036)	(245,713)	556,261
	(4,742,597)	(1,255,919)	1,315,838
Add (deduct) change in non-cash working capital balances related to operations	(1,855,507)	(955,783)	343,835
Cash (used in) provided by operating activities	(6,598,104)	(2,211,702)	1,659,673
Investing Activities			
Loans to shareholders	209,024	(130,107)	–
Additions to capital assets	(1,233,646)	(1,245,448)	(1,006,707)
Cash used in investing activities	(1,024,622)	(1,375,555)	(1,006,707)
Financing Activities			
Issuance of common shares	16,137,380	57,725	3,904,590
(Decrease) increase in bank indebtedness	(1,078,895)	331,813	(270,033)
Cash provided by financing activities	15,058,485	389,538	3,634,557
Increase (decrease) in cash in the year	7,435,759	(3,197,719)	4,287,523
Cash, beginning of the year	2,110,245	5,307,964	1,020,441
Cash, end of the year	$ 9,546,004	$ 2,110,245	$ 5,307,964

Components of Change in Non-cash Working Capital Balances Related to Operations:

	1996	1995	1994
Accounts receivable	$ (5,932,149)	$ (857,376)	$ 410,850
Inventories	799,991	(252,940)	(256,602)
Prepaid expenses	(283,752)	(368,849)	(275,428)
Income taxes recoverable	(208,394)	445,880	(946,070)
Accounts payable and accrued liabilities	3,636,455	(389,633)	1,358,737
Deferred revenue	132,342	467,135	52,348
	$ (1,855,507)	$ (955,783)	$ 343,835

(See accompanying notes to the consolidated financial statements.)

Notes to Consolidated Financial Statements

1. Summary of Accounting Principles

The consolidated financial statements have been prepared by management in Canadian dollars following accounting principles generally accepted in both Canada and the United States, consistently applied except as described in note 2.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Perle Systems Inc. in the United States, Perle Systems Europe Ltd. in the United Kingdom, Perle Systems GmbH in Germany, Perle Systems S.A.R.L. in France, Perle Systems Asia-Pacific (Pte.) Ltd. in Singapore, Perle Systems K.K. in Japan, Perle Sistemi Italia s.r.l. in Italy, Perle Systems España S.A. in Spain, and Perle Systems Pty Ltd. in Australia. All significant intercompany accounts and transactions have been eliminated.

(b) Inventories

Inventories are stated at the lower of cost or market, with cost being determined substantially on a first-in, first-out basis. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overhead. The market value of finished goods and work in process is defined to be net realizable value, and for parts and materials is defined to be replacement cost.

(c) Capital Assets and Amortization

Amortization is recorded so as to amortize the cost of capital assets over the estimated useful lives of these assets on a straight-line basis at the following annual rates:

Office equipment	– 20%
Test equipment	– 33 1/3%
Computers	– 20%
Leasehold improvements	– over the terms of the leases

(d) Revenue Recognition

The Company recognizes product revenue upon shipment of product. Revenue from equipment repair contracts is deferred and recognized evenly over the life of the contract.

(e) Income Taxes

Income taxes are accounted for on the tax allocation basis. Deferred income taxes on the balance sheets reflect the cumulative effect of timing differences between accounting income and taxable income.

Canadian Federal investment tax credits are recorded when the Company has incurred a qualifying expenditure and there is reasonable assurance that the tax credits will be realized. These investment tax credits are reflected as a reduction in the cost of the related expenditures.

(f) Foreign Currency Translation

Assets and liabilities stated in foreign currencies, as well as the accounts of the Company's foreign subsidiaries, are translated as follows:

Monetary assets and liabilities	– at year-end rates
Non-monetary assets and depreciation	– at historic rates
Revenues and expenses other than depreciation	– at average exchange rates for the year

Foreign exchange gains and losses on transactions during the year and on year-end translation of the accounts, which are reflected in income, are not significant.

(g) Research and Development

Research costs are expensed as incurred. Development costs are expensed in the year incurred unless management believes a development project meets the generally accepted accounting principles for deferral and amortization. All development costs to date have been expensed as incurred.

2. Change in Accounting Policy for Software Development Costs

In the second quarter of fiscal 1996, the Company reviewed its method of accounting for software development costs, taking into consideration the policies currently applied by other companies in the same industry. As a result of this review, the Company concluded that it would be appropriate to apply a different interpretation of the criteria for capitalization of development costs.

Management has decided to change its method of accounting for development costs to one that is more prevalent in the industry and, as a result, believes that the change will improve the comparability of the Company's consolidated financial statements with those of its competitors.

The change has been applied retroactively and has resulted in the following decreases to amounts and balances both currently and previously reported:

For the fiscal years ended	1996	1995	1994
Net income (loss)			
for the year	$ (3,219,299)	$ (3,206,974)	$ (779,553)
Earnings (loss) per			
common share	$ (0.50)	$ (0.61)	$ (0.16)

	May 31, 1996	May 31, 1995
Capital assets	$(11,065,780)	$ (8,343,357)
Deferred income taxes	$ (2,011,335)	$ (2,508,211)
Retained earnings	$ (9,054,445)	$ (5,835,146)

Under U.S. generally accepted accounting principles ("U.S. GAAP"), the effect of this change in accounting policy would be recorded as a cumulative adjustment amounting to ($5,835,146), net of associated income taxes, to net income as of the beginning of the year. No change would be made to amounts and balances reported in prior fiscal years. As well as the cumulative adjustment, the other effects of the new policy under U.S. GAAP are as set out above.

3. Accounts Receivable and Concentration of Credit Risk

The concentration of credit risk is limited by the diverse areas covered by the Company's operations. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Anticipated bad debt loss has been provided for in the allowance for doubtful accounts amounting to $126,208 (May 31, 1995 - $309,526). The carrying amount of cash, accounts receivable, accounts payable and accrued liabilities approximate fair market value because of the short maturity of these instruments.

4. Inventories

Inventories consist of the following:

	May 31, 1996	May 31, 1995
Finished goods	$ 1,727,432	$ 2,210,872
Work in process	178,693	456,464
Parts and materials	157,220	196,000
	$ 2,063,345	$ 2,863,336

5. Capital Assets

Capital assets consist of the following:

As at May 31, 1996	Cost	Accumulated Amortization	Net Book Value
Office equipment	$ 2,702,633	$ (1,603,324)	$ 1,099,309
Computers and test equipment	5,402,362	(3,779,520)	1,622,842
Leasehold improvements	909,242	(692,305)	216,937
	$ 9,014,237	$ (6,075,149)	$ 2,939,088

As at May 31, 1995	Cost	Accumulated Amortization	Net Book Value
Office equipment	$ 2,421,611	$ (1,329,374)	$ 1,092,237
Computers and test equipment	4,616,014	(3,355,461)	1,260,553
Leasehold improvements	823,534	(603,919)	219,615
	$ 7,861,159	$ (5,288,754)	$ 2,572,405

6. Other Assets

Other assets consist of the following:

	1996	1995
Loans to officers and directors	$ 181,057	$ 390,081
Investment tax credits recoverable	5,665,912	4,595,912
Deferred income taxes	426,198	–
	$ 6,273,167	$ 4,985,993

7. Share Capital

Authorized

The Company has authorized an unlimited number of Common Shares, without par value, which participate equally in dividends and entitle the shareholder to one vote per share at all meetings of shareholders.

Issuance of Shares and Options

On October 21, 1994, at the Company's Annual General and Special Meeting, a resolution to split all outstanding common shares on a two-for-one basis was approved by the Company's shareholders. The record date for the stock split was November 4, 1994. There were no fractional shares outstanding, therefore there remain no fractional shares subsequent to the stock split. There were no cash payments required by the shareholders or by the Company as a result of this transaction. All historic share values and information calculated based on the number of outstanding shares have been restated to give retroactive application to the two-for-one stock split approved by the Company.

The Company completed a private offering of 400,000 units on November 12, 1993 for gross proceeds of $8.00 U.S. per unit. Each unit consisted of one common share and one-half common share purchase warrant of the Company. Each whole warrant will entitle the holder to purchase, at any time until the second anniversary of the closing date, two common shares of the Company at a price of $5.00 U.S. per share (following the November 1994 subdivision of the Common Shares on a two-for-one basis). The net proceeds received for Common Shares issued under this offering after related agents, legal and distribution expenses were $3.8 million.

On September 29, 1995, the Company completed an offering of 1.5 million of its Common Shares at a price of $9.75 per share for total net proceeds received of approximately $13.4 million. During the second quarter of fiscal 1996 all of the warrants, outstanding pursuant to the private offering of 400,000 units described above, were exercised for total proceeds received of approximately $2.7 million.

During fiscal 1996, 1995 and 1994, the Company issued 39,304, 30,740, and 41,800 common shares for cash consideration of $91,129, $57,725, and $85,311 respectively as part of the 1995 Employee Stock Option Plan (the "Stock Option Plan") and the 1985 Employee Stock Option Plan.

The Company has reserved 500,000 common shares (excluding common shares underlying lapsed options) for issue under its Stock Option Plan. Under the Stock Option Plan, options can be granted to eligible employees, directors and officers of the Company or a subsidiary of the Company and any other person or company engaged to provide ongoing management or consulting services to the Company or a subsidiary of the Company. Options may be granted to purchase common shares of the Company at not less than market price of the common shares of the Company at the date of grant. Options are exercisable annually on a non-cumulative basis as to one-fifth of the optioned shares each year, for five years from the date of grant, at which time the option expires. Options may be exercised, in general, only if the optionholder remains continuously employed by the Company or a subsidiary of the Company from date of grant to exercise. The Stock Option Plan contains anti-dilution provisions and is administered by the Compensation Committee of the Board of Directors. The 500,000 common shares which have been reserved for issuance under the Stock Option Plan include 95,770 common shares which have been reserved for issuance under the Company's 1985 Employee Stock Option Plan. No further options may be granted under the 1985 Employee Stock Option Plan. To May 31, 1996, options have been granted under the Stock Option Plan on 340,800 common shares of which 39,304 have been exercised and 41,156 have lapsed. Options to purchase 260,340 common shares are currently outstanding at the following exercise prices (in U.S. dollars):

Fiscal year granted	Shares	Exercise Prices
1992	19,160	$ 2.230
1994	12,280	$ 2.975
1995	103,900	$ 4.630
1996	**125,000**	**$ 4.230**

8. Income Taxes

The components of income (loss) before income taxes together with related income taxes are set out as follows:

	1996	1995	1994
Income (loss) before income taxes			
Americas	**$ (2,800,778)**	$ (646,976)	$ 2,602,945
International	**(1,447,602)**	(139,270)	(683,493)
	$ (4,248,380)	$ (786,246)	$ 1,919,452
Income tax expense (recovery)			
Current:			
Americas	**$ 246,180**	$ 331,887	$ 366,607
International	**45,000**	(274,267)	(161,799)
Deferred - Americas	**(784,036)**	(245,713)	556,261
	$ (492,856)	$ (188,093)	$ 761,069
Effective income tax rates	**11.6%**	23.9%	39.7%

The provisions for income tax expense differ from those that would be obtained by applying the statutory rates as a result of the following:

	1996	1995	1994
Statutory rates (Canada)	**38.0%**	38.0%	38.0%
Expected income tax expense (recovery)	**$ (1,614,384)**	$ (298,773)	$ 729,392
Use of prior years' losses	**(181,341)**	(390,132)	(81,000)
Portion of loss not recognized	**1,302,869**	500,812	112,677
Income tax expense (recovery)	**$ (492,856)**	$ (188,093)	$ 761,069

Income taxes paid during the year amounted to approximately $428,000 (1995 - $351,000; 1994 - $883,000). Additionally, as at May 31, 1996 the Company had losses, the tax benefit of which has not been recognized, available to reduce future years' taxable income of approximately $5,471,000 in Canada, Europe and Asia. These losses expire as follows: 1998 - $856,000; 1999 - $156,000; 2003 - $ 460,000; indefinite - $3,999,000. The deferred tax asset relating to these losses of $1,033,000 (1995 - 1,248,300; 1994 - $1,330,000) has been offset by an equal amount of valuation allowance in each year.

The deferred tax provision is the result of differences in the treatment for accounting and taxation of the research and development costs and the amortization of capital assets.

9. Earnings per Share

Earnings per share calculations are based on the weighted average number of shares outstanding during the respective years. The weighted average number of shares outstanding used for the earnings per share calculation as at May 31, 1996 was 6,468,110 (1995 - 5,223,094; 1994 - 4,832,902).

10. Commitments and Other Information

(a) At May 31, 1996 the Company was obligated under operating leases primarily relating to office space to make the following minimum annual payments:

1997	812,380
1998	792,115
1999	723,533
2000	677,088
2001	503,699
Thereafter	1,046,735
Total minimum lease payments	$ 4,555,550

Expenses incurred with respect to operating leases in fiscal 1996 were $1,380,000 (1995 - $1,120,000; 1994 - 1,163,000).

(b) The Company has a $6,000,000 unsecured line of credit. This facility, when in use, bears interest at the prime rate and is in force until September 30, 1996.

(c) Accounts payable and accrued liabilities consist of the following:

	1996	1995
Trade accounts payable	**2,443,404**	1,528,809
Accrued executive bonuses payable	**400,000**	300,000
Accrued marketing expenses payable	**1,882,577**	198,856
Accrued commissions payable	**761,942**	218,243
Other accrued liabilities	**2,642,133**	2,247,693
	8,130,056	4,493,601

The Company has an Executive Bonus Plan with the following provisions. If the Company achieves the results established in its Operating Plan profit as approved by the Board of Directors, all officers are entitled to receive bonuses equal to a predetermined percentage of their base compensation.

11. Segmented Information

Substantially all of the Company's operations are related to a single industry segment, the business of designing, manufacturing and selling proprietary computer connectivity products.

The Company had no individual customer whose accumulated sales represented more than 10 percent of total sales during the current year.

The following information relates to geographic segments of the Company:

	1996	1995	1994
Sales:			
Americas	**$35,291,311**	$30,041,665	$26,324,060
International	**20,501,369**	14,914,808	11,447,515
Geographic transfers	**(9,494,403)**	(7,562,264)	(5,517,925)
Consolidated sales	**$46,298,277**	$37,394,209	$32,253,650
Operating Income:			
Americas	**$(2,322,445)**	$ (297,717)	$ 2,575,858
International	**(1,267,762)**	(10,997)	(498,873)
Net corporate items	**(658,173)**	(477,532)	(157,533)
Consolidated income (loss) before income taxes	**$(4,248,380)**	$ (786,246)	$ 1,919,452
Identifiable Assets:			
Americas	**$11,583,849**	$ 8,194,754	$ 8,413,580
International	**7,901,254**	5,231,005	3,119,544
Corporate assets	**15,392,976**	6,738,400	8,404,310
Consolidated total assets	**$34,878,079**	$20,164,159	$19,937,434

The Americas geographic segment includes the United States, Canada and Latin America.

The International geographic segment includes sales to customers in Europe, the Middle East, Africa, Asia, Japan and Australia.

Geographic transfers represent sales from the Canadian manufacturing facility to other segments and have been transacted at fair value.

Operating income represents income after the elimination of profits on intercompany transactions.

Net corporate items include foreign exchange, interest, salaries and general administrative expenses of the corporate group and investment tax credits accrued.

Corporate assets include cash, loans to shareholders and investment tax credits recoverable.

12. Comparative Figures

In addition to the restatement described in note 2. certain of the comparative figures have been reclassified to conform with the current year's presentation.

Directors and Executive Officers of the Registrant

Name & Position	Age	Principal Occupation
James D. Bolin Vice-President	55	Vice-President of the Company and President of the U.S. Operations
Lawrence Chernin Director	45	Partner, Goodman and Carr, Barristers and Solicitors
John L. Feeney Vice-President	38	Vice-President, Product Group of the Company
J. Douglas Langford Vice-President, Finance and Chief Financial Officer	45	Vice-President, Finance and Chief Financial Officer of the Company
Geoffrey Matus Director	47	Chairman of H.O. Financial Limited and Chairman and Chief Executive Officer of Globelle Corporation
Joseph E. Perle President, Chief Executive Officer and Director	50	President, Chief Executive Officer and Chairman of the Board of Directors of the Company
E. Duff Scott Director	59	President of Multibanc Financial Corp.
Nir Shafrir Director	38	Director of Globelle Corporation
Neville Street Vice-President	35	Vice-President of the Company and Managing Director of the European Operations

Mr. Bolin holds a Bachelor of Science degree in Business Administration and is a Certified Public Accountant. He was employed in various management positions in Ford Motor Company and Colorado Interstate Corporation and was General Manager of the Digital Systems Division of Texas Instruments prior to joining the Corporation in 1987. He served as President of the Canada Asia Pacific Division from 1990 to 1996 and currently is a Vice-President, of the Company and President of Perle Systems Inc. the Company's U.S. subsidiary.

Mr. Chernin holds a Bachelor of Arts degree and a Bachelor of Law and his LL.B. all from McGill University. He has been a partner in the law firm of Goodman and Carr, Toronto, since 1984. He is a member of the Canadian Bar Association and the Law Society of Upper Canada.

Mr. Feeney holds a Bachelor of Engineering (Electrical) degree from McMaster University and is a member of the Association of Professional Engineers of Ontario. He joined the Corporation in 1982 and held a variety of positions in the Corporation's product development group before being appointed Vice-President, Product Group in 1994.

Mr. Langford held several managerial positions at Ernst & Young, Chartered Accountants over a period of 11 years before joining the Corporation in 1985 as Vice-President, Finance. Mr. Langford holds a Bachelor of Science degree in Mathematics from the University of Western Ontario. He received his Chartered Accountant designation from the Institute of Chartered Accountants of Ontario in 1977 and is a member of the Canadian Institute of Chartered Accountants.

Mr. Matus has served as a director of the Company since 1980. He holds a Bachelor of Commerce (Accounting and Business Administration) and a Bachelor of Law from the University of Witwatersrand, South Africa, and a Master of Law degree from

Columbia University. Since 1984, he has served as Chairman of the Board of H.O. Financial Limited, an Ontario publicly held investment company. Mr. Matus is also Chairman of the Board and Chief Executive Officer of Globelle Corporation ("Globelle"), an Ontario publicly held company which distributes microcomputer products.

Mr. Perle, who is the Chairman of the Board, President and Chief Executive Officer is the founder of the Company. He received his Bachelor of Applied Science (Engineering) degree from the University of Toronto in 1969, specializing in physics and mathematics. He was employed by IBM from 1970 to 1976 in increasingly more responsible engineering management positions.

Mr. Scott is currently the President of Multibanc Financial Corp., a financial services company. He is Chairman of the Board of QLT PhotoTherapeutics Inc., a publicly traded biopharmaceutical company. He is a Director of First Commonwealth Fund Inc., a registered investment company publicly traded on the New York Stock Exchange as well as a number of Canadian publicly traded companies. Mr. Scott is a former Chairman of the Toronto Stock Exchange.

Mr. Shafrir has served as a director of the Company since 1990. He is a director of Globelle, a company which he founded in 1985. Globelle is one of the largest suppliers of computer components in North America.

Mr. Street holds a Bachelor of Arts Honors Degree in Business Studies from Sheffield University. He has spent six years at IBM in both Sales and Sales Management roles in the Commercial and Enterprise areas of the Business. In 1990 he moved to AST Computer to head up Corporate Sales in the UK and in 1992 moved into a Pan-European Sales and General Management Role for AST's European Distribution Operations and AST Benelux Subsidiary. In 1994, he joined Perle as European Managing Director and was appointed a Vice-President of Perle Systems in July 1996.

Stockholder Information

Registrar and Transfer Agents

Inquiries regarding lost certificates, consolidation of accounts and changes in address, name or ownership should be addressed to either/or:

American Stock Transfer
& Trust Company
99 Wall Street, New York,
New York, USA 10005

The R-M Trust Company
393 University Avenue, 5th Floor
Toronto, Ontario
Canada M5G 2M7

Investor Relations

The Form 10-K Annual Report and Form 10-Q Quarterly Report to the Securities and Exchange Commission provide further details on Perle's business. Copies of these reports, annual reports and/or quarterly reports may be obtained upon request to:

Perle Systems Limited
Investor Relations Department
60 Renfrew Drive, Markham, Ontario, Canada L3R 0E1
Phone +905 946-5004 Fax +905 475-2377
E-mail: invest@perle.com

Stock Listings

National Association of Securities Dealers
Automated Quotation System ("PERLF")

The Toronto Stock Exchange ("PL")

Annual Meeting

Shareholders are invited to attend the 1996 annual meeting, on Thursday October 3, 1996, at 11:00 a.m. in Toronto, Ontario.

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PERLE®

Net Income Reconciliation

Company Name	Perle
Year End	1996
Deflator	none

Canadian Income Statement

	$	Line	
Net income (Bottom Line)	-3755524	1	Agree with I/S?

Reconciling to income from continuing operations (Cdn)

Code Number		Line
		2
		3
		4
		5
		6
		7

Cdn. Operating Income (1-7)	-3755	8	Agree with I/S?

Reconciling Items

Reconciling to US income from continuing operations

Code Number		Line
		9
		10
		11
		12
		13
		14
		11
		12
		13
		14
		15
		16
		17
		18
		19

Subtotal (9 thru 19)		20
US Operating Income (8+20)	-3755	21

SK Rec is 0, since Closing R.E. is the same

US Income Statement

Reconciling to US Net Income (Bottom Line)

Code Number		Line
		22
		23
		24
		25
		26
		27
		28
65	-5835146	29

Subtotal (22 thru 29)		30	
US Net Income (Bottom Line) (21+30)	~~9059~~	31	Agree with note to F/S?

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